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Keiretsu Questions Surface In Merger Announcement, SII Report

Cement companies are not normally headline grabbers. However, when one of Japan's four large cement and building materials concerns announced a merger with a leading nonferrous metals firm, the news received extensive press attention around the world. Apparently the reason stemmed from the identity of the two firms, Mitsubishi Mining and Cement Co., Ltd. and Mitsubishi Metal Corp. Both companies belong to the Mitsubishi presidents' club, a group of 29 corporate leaders who get together regularly to discuss common concerns. As such they are part of the inner circle of the Mitsubishi keiretsu, although not all bear the name Mitsubishi. (For details of the keiretsu structure, see JEI Report No. 2A, January 12, 1990.) In addition, the 29 firms are part of a larger group of companies that hold stock in each other, borrow most heavily from Mitsubishi Bank, Ltd. or other Mitsubishi-related financial institutions and have other historical and business linkages. By some counts, this broader group consists of hundreds, even thousands, of companies.

Sens. John Danforth (R, Mo.) and Robert Byrd (D, W.Va.), among other legislators, have told the White House in no uncertain terms that Japan must be named again in the upcoming Super 301 round. Secretary of Commerce Robert Mosbacher apparently backs this position, as do two of the nation's business organizations -- the Chamber of Commerce and the National Association of Manufacturers -- and a number of trade associations, including the Semiconductor Industry Association and the Automotive Parts & Accessories Association. Several influential members of Mr. Bush's cabinet, such as Secretary of State James Baker and Treasury Secretary Nicholas Brady, are said to understand that leaving Japan off this year's Super 301 list could trigger a protectionist backlash in the Congress. But they recognize, as apparently does the president, that citing Japan a second time could backfire in Tokyo. Japanese government, political and business leaders are tired of taking the blame for the huge bilateral trade imbalance and are fed up with Washington's nonstop pressure for trade concessions. Targeting Japan again also could undercut the still tenuous leadership position of Mr. Kaifu at the same time the White House is counting on him to shepherd the SII and the wood products talks to successful conclusions.

These pros and cons of putting Japan on the new Super 301 list have received considerable media attention. Virtually overlooked is the fact that there are no good product candidates for designation this year. The negotiations on supercomputers and satellites have succeeded because the problems raised by the United States are the result of Japanese government policies or programs. An agreement on wood products will be forthcoming for the same reason. But comparable targets are missing this time around.

Rice and the distribution system, seemingly the best possibilities in the Japan section of the 1990 National Trade Estimate Report (see JEI Report No. 14B, April 6, 1990), are out of the running. Washington and Tokyo have agreed to discuss Japan's near-total ban on rice imports within the context of the Uruguay Round of multilateral trade negotiations, while the Bush administration has shelved its demand for the repeal of the Large Retail Store Law until it can see whether the regulatory changes proposed by Tokyo in the SII talks work.

Japan's lack of copyright protection for American voice recordings made prior to 1978, cited by some analysts as another possibility, also is a nonstarter. If the administration decides to do something about this issue, it will be within the framework of the Special 301 provision of the 1988 trade act. Another prospect -- amorphous metals -- was scratched from the list April 18 when the U.S. government decided to pursue a complaint by Allied-Signal Inc. outside Super 301 or regular 301 channels. That leaves automotive parts and semiconductors as the leading candidates. But, as administration trade officials have acknowledged, the obstacles to expanded U.S. sales of these two product groups are an outgrowth of private-sector business practices.

Susan MacKnight

Notes

Japanese Defense Contractors - The Japan Defense Agency released a list April 6 of the top 10 Japanese companies to which it had awarded equipment contracts during FY 1989 (see Table). For the 25th consecutive year Mitsubishi

Heavy Industries, Ltd. was Japan's biggest defense contractor, winning contracts worth Y363.6 billion ($2.4 billion at Y150=$1.00) or 24 percent of the total. Notable among the awards MHI received was the one for design work on Japan's new fighter support aircraft. The Japanese industry giant is working with prime subcontractor General Dynamics Corp., whose F-16 serves as the model for the FSX. MHI also obtained contracts for a set of Patriot surface-to-air missiles, 11 F-15 fighter planes, a set of Type 88 surface-to-surface guided missiles, 12 SH-60J rescue helicopters and 56 Type-74 tanks.

The Y1.5 trillion ($10 billion) worth of equipment contracts JDA let in FY 1989 consisted of Y381.3 billion ($2.5 billion) for the Ground Self-Defense Force; Y512.6 billion ($3.4 billion) for the Maritime Self-Defense Force; Y506.4 billion ($3.4 billion) for the Air Self-Defense Force; Y98.3 billion ($655.3 million) for the Technical Research and Development Institute; and Y1.8 billion ($12 million) for other departments. The top 10 defense contractors won orders amounting to Y954.3 billion ($6.4 billion) or 64 percent of the total.

Top 10 Japanese Defense Contractors, FY 1989

(in billions of yen)

Rank	Company	Contracts	Percent Change From FY 1988
1.	Mitsubishi Heavy Industries, Ltd. (1)*	Y363.6	-0.2%
2.	Kawasaki Heavy Industries, Ltd. (2)	174.3	15.9
3.	Mitsubishi Electric Corp. (3)	111.7	10.8
4.	NEC Corp. (6)	71.0	-3.6
5.	Toshiba Corp. (4)	68.3	-18.0
6.	Ishikawajima-Harima Heavy Industries Co., Ltd. (5)	62.8	-18.9
7.	Nippon Seiko K.K. (7)	31.2	0.3
8.	Hitachi, Ltd. (--)	26.2	340.0
9.	Komatsu Ltd. (8)	23.6	0.0
10.	Fuji Heavy Industries, Ltd. (9)	21.6	-2.3

*Number in parenthesis indicates ranking in FY 1988.

Source: Japan Defense Agency

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.